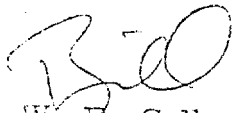


MEMORANDUM FOR: The Honorable
Henry A. Kissinger
Assistant to the President for
National Security Affairs

Attached for your information are
a note and memorandum reflecting our
most recent estimate on the Soviet grain
crop.


W. E. Colby
Director

Attachments

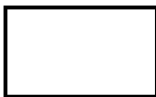
5 August 1975
(DATE)

FORM NO. 101 REPLACES FORM 10-101
1 AUG 64 WHICH MAY BE USED.

(47)

MEMORANDUM FOR: The Honorable
James R. Schlesinger
The Secretary of Defense

Bill asked me to send you a copy
of the attached note and memorandum
reflecting our most recent estimate of
the Soviet grain crop.


Edward W. Proctor
Deputy Director for Intelligence

Attachments

5 August 1975
(DATE)

FORM NO. 101 REPLACES FORM 10-101
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DIRECTOR OF CENTRAL INTELLIGENCE

5 August 1975

Memorandum For:

The Honorable Earl L. Butz
The Secretary of Agriculture

This is to alert you to the fact that we have lowered our estimate of the Soviet grain crop to 165 million tons, slightly below the 1972 level. This indicates that the USSR will be in the international market for any grain it can get but will also be forced to reduce its livestock herds and to make other internal adjustments. The situation is bound to have serious political as well as economic implications in the USSR.

We are giving the attached classified memorandum only very selective dissemination at this time. Wider dissemination will follow later this week. CIA does not intend to make any public announcements.


W. E. Colby

Attachment

cc: The Honorable Henry A. Kissinger
The Honorable William E. Simon
The Honorable Rogers C. B. Morton
The Honorable L. William Seidman
The Honorable Charles W. Robinson
Ambassador Frederick Dent

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MEMORANDUM FOR:

William N. Morell, Jr.
Assistant to the Sec.
for National Security
Dept. of the Treasury

We have reduced our estimate of the Soviet grain crop to 165 million tons. The attached paper discusses this estimate and its implications.

MAURICE C. ERNST
Director
Economic Research

5 Aug 75
(DATE)

FORM NO. 101
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(47)

Identical Blue Notes to:

The Hon. Alan Greenspan, CEA
Mr. Paul W. MacAvoy, CEA
Mr. J. M. Dunn, CIEP
The Hon. Winston Lord, State
The Hon. William G. Hyland, State
The Hon. Arthur A. Hartman, State
Ambassador Deane Hinton, State
Mr. Julius L. Katz, State
The Hon. Gerald Parsky, Treasury
The Hon. Richard E. Bell, Agriculture
Mr. Donald Paarlberg

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

PROSPECTS FOR SOVIET GRAIN OUTPUT

The cumulative effects of the hot, dry weather in the Soviet grain lands have led us to cut our forecast of Soviet grain output to 165 million tons, down 20 million tons from our previous forecast of 185 million tons.

Recently acquired data

indicate that the drought is more severe in the southern and eastern Ukraine, northern Urals, and northern Kazakhstan than previously thought. This year's drought is more widespread than the one in 1972, and in many areas is worse than in 1963 and 1965, the poorest agricultural years in the past 20. Rain fell at the end of July, but this was too late to help the grain crop. The drought has also curtailed forage crops, although recent rains have improved the outlook for potatoes, the other important starchy staple in the Soviet diet.

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The total shortfall in Soviet production in relation to expected requirements probably will be in the order of 50 million tons - the equivalent of one-fourth of the total US grain crop and more than one-third of total world grain exports last year. To date the Soviets have contracted for about 13-1/2 million tons of foreign grain, and it now seems certain that Moscow will be back for additional large quantities. Although the Soviets should be able to finance larger imports of grain, available world supplies are nowhere near sufficient to satisfy all Soviet needs without drastic increases in world prices.

Although the eventual volume of Soviet grain imports will be affected by the size of Western grain crops, it is clear in any event that Moscow will have to make substantial domestic adjustments to cope with a substantial part of the shortfall. The Soviets will draw on their small cushion of grain reserves (estimated in the 10-15 million ton range) and will take some combination of the following steps:

- raise milling rates - increasing the amount of flour milled from a ton of grain (as Khrushchev did following the poor 1963 harvest) would reduce the quality of flour but save approximately 4 million tons of grain;

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- slaughter livestock -- reduction in livestock inventories to the 1972 level (a 5% cut) would lower the demand for feedgrains by roughly 6 million tons; and
- reduce feed rations per head of livestock -- if these were reduced to the 1972 levels, another 13 million tons could be saved but the future output of meat would fall.

Although the Soviet government, with its commitment to raising living standards, will be very reluctant to take such steps, it will have no alternative.

A harvest failure of this magnitude will complicate political life in Moscow and weaken Brezhnev's position in the leadership. The failure will have an impact on a wide range of matters: the consumer program, formulation of the next five-year plan, a program for the Party Congress in February, and relations with the West. Debate and disagreement are likely to become more heated on many issues.

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